FP Comment

William Watson: Is cheap daycare really a good idea?

What's good for GDP is not necessarily good for well-being

William Watson
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Daycare services that parents had been providing on their own are now be produced in the market, where they have to be paid for, and as a result show up in GDP. Is there a net gain in well-being to go along with the increase in GDP? PHOTO BY GETTY IMAGES

To update an old economics fable for the identity century, if a woman marries her fitness trainer, GDP falls. The fitness trainer presumably no longer charges her new wife for fitness instruction, so that lowers GDP. And the wife no longer has to earn the money she formerly spent on workouts she now gets for free. If she decides as a result to work a little less, that lowers GDP, too.

Though GDP is down the couple's well-being presumably is up. They are now married, which makes them better off. (They wouldn't have married otherwise.) The same fitness instruction is still being provided. And the woman who used to purchase it has a little more leisure time because of her decision to work a little less. So: win-win-win, even if GDP does decline.

The moral of the fable is that GDP and well-being don't always move in the same direction. Growth in the funeral services industry, say, does create jobs and incomes, but there is an important non-monetary downside.

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It's therefore surprising that a Liberal budget — Liberals being well-known, especially to themselves, as sophisticated thinkers — is so focused on GDP. Thus a main reason for the proposed national childcare and early education program is that it will increase GDP. "The addition of 240,000 workers in the labour force would drive an increase in real per capita GDP in the long run of as much as 1.2 per cent."

Canada's labour force is currently more than 20 million strong so an increase of almost a quarter million workers is a bump of a little over one per cent, which is basically the same as the bump in GDP the budget suggests would follow. But surely the question a government should be interested in is, not whether GDP rises, but whether well-being does. That's not so clear.

GDP goes up for a couple of reasons, each the inverse of effects in the above story about the marriage of the fitness instructor and his client.

Daycare services that parents had been providing on their own are now be produced in the market, where they have to be paid for, and as a result show up in GDP. Is there a net gain in well-being to go along with the increase in GDP? The total amount of daycare being provided doesn't change. The same number of kids are still taken care of — except now by people outside the home rather than by family members. Will the professionals do a better job? There's a whole literature on the effects of daycare and early childhood education on kids and the results aren't clear-cut. No doubt some parents do a lousy job. On the other hand, strike-prone government monopolies applying the latest theories from faculties

Of course, women who switch their daycare from home provision to market purchase can now enter the formal labour market and earn wages and salaries that also show up in GDP. Is there a net gain there? It depends. If you had been providing daycare services that the market values at $20,000 a year and you go out and earn $60,000 a year instead, that's a plus for you and for GDP (net of any costs of earning that $60K that didn't arise with homecare).

Is it a plus for welfare? Yes, but not the full $60K. You're down the $20K your own daycare services were worth.

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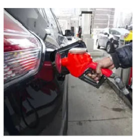

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Suppose you go out and earn just $25,000 when your value in homecare was $20,000. That's not nearly so decisive a net gain — even though GDP is up by the full $25,000.

What would be the best way to decide whether it makes sense to get a job or stay home? Have people compare their own value in daycare, or what they have to pay for daycare, with what they stand to earn. But of course the brunt of the Liberal plan is to remove the cost of daycare from the equation — all but $10/day of it.

The budget (on p. 99) includes a chart from the left-leaning Canadian Centre for Policy Alternatives of daycare costs across the country. The entry for Toronto is $1,578/month, which is $18,936/year (though a note informs us the data "do not include reductions from means-tested childcare subsidies or tax-based supports"). If I take a $15,000/year job that requires almost $19,000 in daycare costs, GDP may rise as a result but the decision makes no economic sense.

In general, what's best in particular circumstances is what people decide when they compare the costs of their decision to work outside the family with its benefits. Removing a bunch of costs from the equation tilts the decision in favour of market work. That's good for GDP but not necessarily good for overall well-being.

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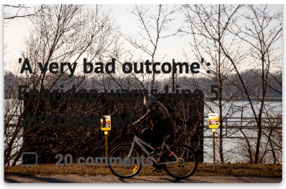

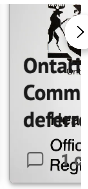

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